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## **Brazil**

**Post:** Brasilia

## **Cotton and Products**

### **Tight Cotton Stocks in Brazil**

**Approved By:**

Alan D. Hrapsky, Agricultural Counselor

**Prepared By:**

Jeff Zimmerman, Agricultural Attaché

**Report Highlights:**

Brazil's carryover old crop stocks in 2010 reached their lowest level since 2002/03 to 2003/04. Tight carryover stocks are expected to continue in Brazil over the next 2 years as combined domestic and international demand exceeds projected production. Brazil will be more import dependent during the 2<sup>nd</sup> quarter over the next few years. USDA official estimates are based on an August-July year that correlates with Northern Hemisphere countries and not Southern Hemisphere countries such as Brazil. This timing issue accounts for the relatively high stock levels and low volatility in stocks to use typically reported by USDA for Brazil that do not appear aligned with the actual supply situation.

Brazil's estimated 2009/10 and 2010/11 carryover stocks are tight and being pressured as the global

stocks-to-use ratio falls from a 7 year high to the lowest level in 15 years. The United States as the world's largest exporter saw stocks decline by over 50 percent in 2009/10. India as the second largest cotton exporter further exacerbated global stock shortages by restricting exports due to increased prices being paid by local industry as domestic stocks declined.

This year cotton traders have looked to Brazil to offset global shortages, in part due to the United States Department of Agriculture's (USDA) official ending stock and stock-to-use figures for Brazil that appear to indicate a plentiful supply situation. However, this is misleading as the USDA official estimates are based on an August-July year that correlates with Northern Hemisphere countries and not Southern Hemisphere countries such as Brazil. Hence, USDA's beginning/ending stocks estimates capture Brazilian stocks mid-harvest on July 31<sup>st</sup> when they are at nearly their peak (Figure 1). This timing issue accounts for the relatively high stock levels and low volatility in stocks-to use typically reported by USDA for Brazil.

A closer analysis adjusting the USDA estimates into a March-February marketing year reveals tightening stocks in Brazil in line with the global scenario (Table 1). Likewise, the Ministry of Agriculture Brazilian Food Supply Company's (Conab) July estimates for the January-December year show declining ending stocks and stocks-to-use. Note that the official USDA figures shows a deceptive increase next year's ending stocks and stocks to use estimates for August-July 2010/11 derived from the estimated increased production. The Mar-Feb and Jan-Dec estimates provide a more accurate assessment of ending stocks in Brazil.

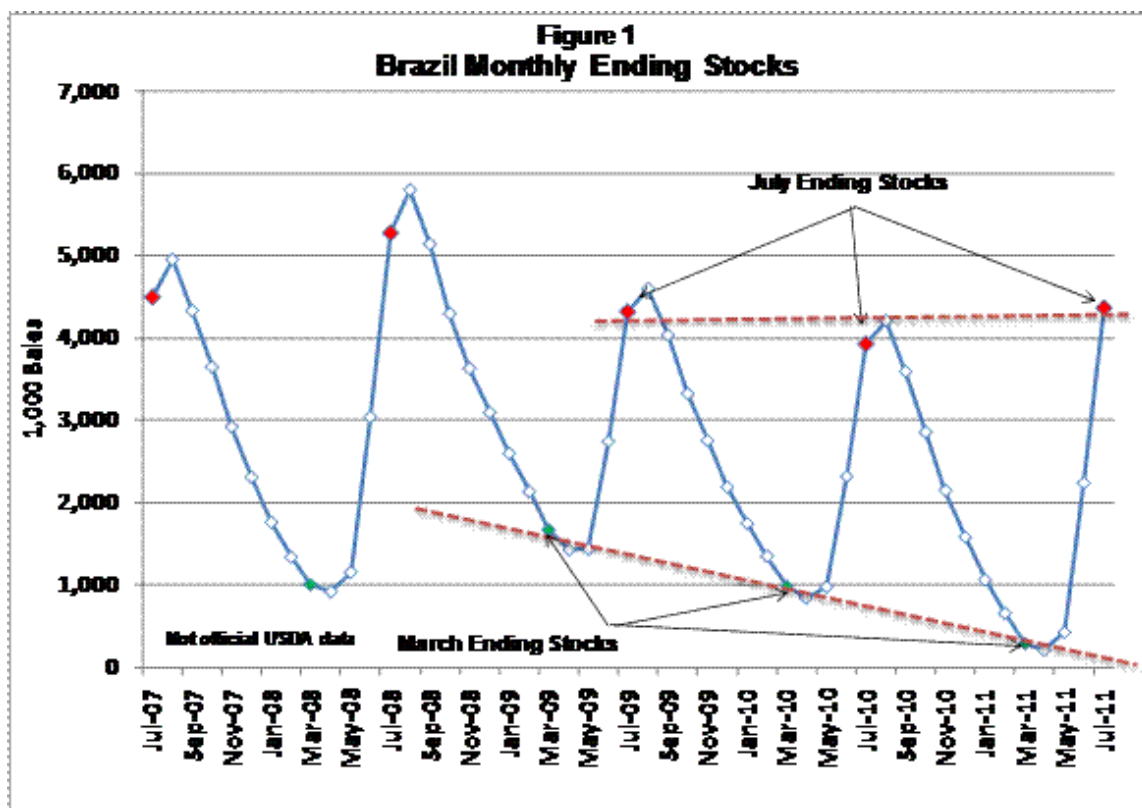
**Table 1. Comparison of Brazilian Cotton Ending Stocks in Differing Marketing Years**

Marketing Year	2008/09	2009/10	2010/11
	1,000 Bales (480 lb/each)		

August-July (USDA estimates)	Ending Stocks	4,992	4,632	5,482
	Stocks to Use	71.9%	72.4%	83.1%
March-February (not official USDA estimates)	Ending Stocks	2,125	1,350	800
	Stocks to Use	32%	20%	12%
January-December (official Conab estimates)	Ending Stocks	2,002	1,563	--
	Stocks to Use	30%	24%	--

### **Brazilian cotton stocks tight during second quarter in coming years**

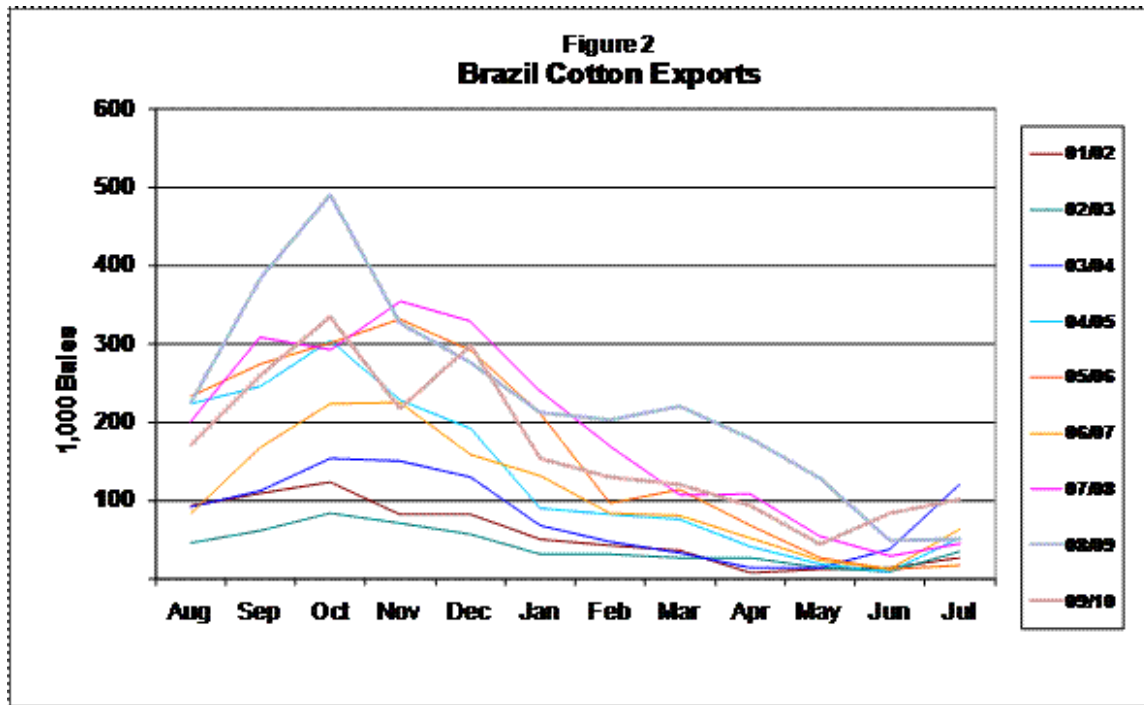
Brazil plays a dual role of cotton exporter from July through December and cotton importer from January through June. Stocks in Brazil typically reach their lowest level in April or May, right before the beginning of the main harvest period of June through August. This is evidenced by the tapering off of exports the April-June period (Figure 2). Carryover old crop stocks in 2010 reached their lowest level since 2002/03 to 2003/04. An adjusted USDA 2009/10 ending stocks estimate for April 2010 shows only 800,000 bales as derived from net exports, consumption and harvest during the May-July period. A Brazilian industry source estimated ending stocks for May 2010 at 320,000 bales, less than average monthly domestic industry consumption of 370,000 bales. Tight carryover stocks are expected to continue in Brazil over the next 2 years as combined domestic and international demand exceeds estimated production.



### Brazil's Cotton Harvest Becoming More Concentrated

The increased concentration of harvest between the months of June and August has further contributed to Brazil's tight carryover stocks. Production in southern states that harvest earlier (February-April) is disappearing. Production is consolidating in the Center-West and North-East regions of the country that harvest May through September. Industry has encouraging the southern producers to re-enter the market in an attempt to secure input needs. Even so, Brazil is expected to become more reliant on imports pre-harvest from December through May. While harvest begins in May, little if any of new crop cotton is actually available for either export or domestic consumption in May and only limited amounts would be available in June. Therefore, mills need to have 6-8 weeks consumption of old crop available on May 1 to continue to operate until new crop cotton is available. For instance, this year only 50 percent of the cotton harvest was completed towards the end of July due to its center-north geographic location, despite drought-induced early maturing in Mato Grosso. As the main harvest takes place in June, July, and August stocks build dramatically as harvest progress outpaces domestic consumption and exports. Part of the reason for the inevitable buildup of USDA reported stocks is the structural delay between harvest and the shipment of exports. Ginning, consolidating, and transport to

ports delays exports of new crop cotton initially and exports do not start in earnest until August.



Other Relevant Reports:

[BR0608 - Brazil Cotton Annual Report 2010](#)

[BR9434 - Brazil Cotton Planting Update - December 2009](#)